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Management Report: The Massachusetts Division of Insurance From 1975 to 1978

ADMINISTRATION

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Division of Insurance

Commonwealth of Massachusetts

Management Report:
The Massachusetts Division of Insurance
From 1975 to 1978

ADMINISTRATION

Prepared by Andrew F. Giffin, First Deputy Commissioner

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Introduction

In a series of speeches given during his first few months in office, Massachusetts Commissioner of Insurance James M. Stone set the tone of his administration. "Our job is to protect the insurance consumer within the environment of a healthy and responsible business climate," he stated to the Risk and Insurance Management Society of Massachusetts on March 20, 1975. He offered five criteria to judge success in the marketplace: "One: Insurance must be available for those who need it. . . .Two: Insurance must be safe. . . .Three: The insurance product must be of the highest quality. . . .Four: Insurance prices must be reasonable. . . ., and, Five: Insurance industry participants must be good citizens."

While urging the insurance industry to respond to these programmatic goals, the Commissioner at the same time promised to take a critical look at the Division itself. Its reputation for competence and efficient performance was less than excellent. On the contrary, many consumer and industry observers saw the Division as laden with unproductive personnel and wanting in technical talent. Four years later, Business Week (May 1, 1978) described the Massachusetts Division of Insurance as having the most expert regulatory staff of any insurance department in the country. This report describes the management of the Division between the new Commissioner's appointment on February 28, 1975, and the completion of his term on January 4, 1979.

Organizational Structure

In January of 1975, the Massachusetts Division of Insurance was an agency of 309 employees. By September of 1978, the total number of personnel had dropped by 30% to 217. The number of attorneys, CPA's, actuaries, Ph.D's and MBA's in the Division had grown from less than a dozen in January of 1975 to 40 by the end of 1977.

With improved operating procedures and a streamlined organizational structure and despite a substantial upgrading in staff qualifications and a 29% general inflationary increase, the fiscal 1979 budget of $3,672,000 for the administration of the Division was approximately 10% below expenditures for fiscal 1975.

Table 1 displays an organizational chart for the Division as of January 1, 1975. The unwieldly structure virtually paralyzed the Division operationally. The chart shows nine deputy commissioners reporting directly to the Commissioner. There was no formal middle-management structure.

The first organizational change undertaken in 1975 was a consolidation of the responsibilities of the deputy commissioners. The Commissioner established a management cabinet of five members, including himself and four principal deputies. All operations of the Division were placed under the direction of one of these deputies. A meeting of the five was to be held every morning at 9:00 a.m.

A comprehensive reorganization of the Division was completed in August of 1976. Assignment of functions followed lines of professional discipline, as shown in Table 2. The activities of financial auditors, investigators and closely related licensing functions were united in the Licensing and Examination Bureau. The lawyers and consumer complaint specialists from the various sections were joined in the Legal and Consumer Service Bureau. With the formation of the State Rating Bureau in mid-1976, all of the actuarial and policy form review functions were consolidated there. The fourth unit was the Administration and Research Bureau under the direction of the First Deputy Commissioner.

Several of the sections which comprised the four bureaus were new. The State Rating Bureau, created by the Legislature in 1975, brought to the Division an impressive complement of actuaries, accountants and lawyers. The Research and Education Section was established with an interdisciplinary group of professionals to plan the implementation of new legislation, to explore new regulatory approaches, and to prepare educational materials for insurance consumers. The Financial Surveillance Section was formed, with the addition of high-level Insurance Auditor positions, to provide for the first time a home-office auditing capability to make use of the information collected in field examinations.

These changes permitted the Division to perform a vastly more useful function for the people of the Commonwealth with a smaller number of

personnel and a substantially reduced cost. They were essential to success in the substantive areas of Massachusetts insurance regulation.

Senior Management Personnel

Commissioner Stone graduated from Harvard College in 1969 with highest honors in economics and was awarded prizes for "the best undergraduate thesis" and for "the best research or seminar paper presented to the graduate school in economics." He completed an MA degree in 1970 and a Doctor of Philosophy in Economics in 1973, both at Harvard University. In the fall of 1973 he was appointed to the Harvard faculty as a lecturer in economics. He taught there until 1975.

From 1971 to 1975, he was employed as a consultant by the insurance brokerage firm of Fairfield and Ellis, Inc. In 1974 he completed examinations for the designation of Chartered Property and Casualty Underwriter (CPCU) and completed six examinations for admission to the Casualty Actuarial Society. He has authored several published articles on insurance and finance as well as a book, One Way for Wall Street, published by Little, Brown and Co. in 1975. He was appointed Commissioner on February 28, 1975, by Governor Michael S. Dukakis.

Robert D. Moran served as First Deputy Commissioner from March of 1975 until May of 1976. He had served the previous commissioner as a deputy. He held an MBA degree from Harvard Business School and had considerable experience in public sector management. Mr. Moran was assigned general responsibility for Division operations.

In May of 1975, Keith R. Rodney was appointed Deputy Commissioner and assigned responsibility for the functions of field examination and home-office audit, company licensing and admission, and agents and brokers licensing. Mr. Rodney, a CPA, came to the Division from the national accounting firm of Coopers and Lybrand.

In July of 1975, Brenda Viehe-Naess was appointed Deputy Commissioner and Chief Counsel. As such, she supervised the legal and complaint sections and the Board of Appeal. Ms. Viehe-Naess held a law degree from Vanderbilt University. She had previously been employed as an attorney at the John Hancock Mutual Life Insurance Company.

In May of 1976, Andrew F. Giffin replaced Robert Moran as First Deputy Commissioner and Donald C. Hillman replaced Brenda Viehe-Naess as Deputy Commissioner and Chief Counsel. Mr. Giffin held a law degree from the University of Wisconsin and is a candidate for an MBA degree in public management at the Boston University School of Management. Before joining the Division, he had served in regulatory agencies at the federal and state level, including the Pennsylvania Insurance Department where he

was Chief Counsel. Mr. Hillman received his law degree from the Boston College Law School. Prior to coming to the Division, he served as General Counsel in the state's Executive Office of Consumer Affairs.

In July of 1976, James H. Hunt was appointed Director of the State Rating Bureau. He is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. He had been the Commissioner of Banking and Insurance for the state of Vermont.

The new organization of the Division into bureaus and sections provided clear lines of authority. These lines were used as the primary avenues for communication and supervision. Middle management had previously been given little authority for making substantive decisions concerning their work or staffing. During the reorganization, those individuals designated as section heads were given extensive, direct responsibility for program implementation and personnel management. Principal day-to-day operational control of the Division was vested with section heads. Policy formulation responsibility remained primarily with the management deputies and the Commissioner.

Staffing Pattern

Table 3 shows the distribution of filled positions by payroll grade as of January 1, 1975. Personnel were heavily concentrated in the lower clerical and ministerial grades. The field staff represented 64% of Division personnel. Training prior to 1975 was limited to on-the-job instruction.

The structural reorganization in 1975 and 1976 was accompanied by a complete reorientation of the staff. The performance quality of the Division's necessary functions was given primary emphasis, while jobs better handled within the private sector were phased out. Staff changes were designed to fit the functional emphasis. All willing to improve their training and performance standards to acceptable levels were encouraged to stay. Others were encouraged to leave. By 1978, 190 of the Division's 309 employees had left by retirement, resignation, termination or transfer. New positions were created to introduce a nucleus of highly-qualified professionals in accounting, actuarial science, statistics, economics and law. Table 3 also shows the distribution of employees by payroll grade when the reorganization was complete. Tables 4 and 5 summarize the staff additions and deletions which accompanied the reorganization. Table 6 displays the changing employee distribution by functional assignment.

From 1975 to 1978, the number of clerical and junior ministerial positions filled dropped from 108 to 49. Senior ministerial positions dropped from 169 to 119. Professional and management employment rose from 32 to 49 positions. The reductions in the ministerial category

represent principally a deemphasis of routine Division field work. A small number of well-trained auditors, backed by a comprehensive new requirement for CPA audits of licensed companies, proved able to perform the Division's financial surveillance obligations more effectively at lower cost. In addition, it was found that contracting out the written testing of agents and brokers licensing applicants to Educational Testing Service provided a higher quality examination under greater security at reduced state cost. Further cost savings were effected by extending the term of agents and brokers licenses from one year to three.

Budget

In the fiscal year ended June 30, 1975, the Division of Insurance had total expenditures of $4,075,014. Over 90% of this amount was for personnel expense. For fiscal 1979, the Division has a total administrative budget of $3,672,000.

The principal contribution to the declining budget was the reduction in personnel. The thirty percent staffing cut produced only a 10% budget cut because the reduction in numbers was partially offset by the higher average salaries of the new professional positions. In addition, union contracts and management pay increases raised individual salaries. For example, the step one salary for a Grade 3 clerical employee rose from under six thousand dollars in 1975 to nearly eight thousand dollars in October of 1978, a 34% increase. Management pay raises, unfortunately, were far smaller. Recruiting well trained professionals for top Division jobs at state salaries remains a serious problem. State pay for executives is substantially below federal and private sector scales.

The other significant source of budget reduction was in the travel account. Curtailing of the field examination force in favor of CPA audits permitted a reduction in travel expenses from $130,280 in 1975 to a budget of $60,000 in fiscal 1979. Table 7 shows the movement of the entire budget over the four year period, detailed by subsidiary account.

The Division receives revenues from licensees for issuing certificates and licenses and for performing certain of its audit functions. Effective January 1, 1976, the fees and charges were increased. Statute requires the Division to assess insurance companies up to $2 million annually if the revenues from Division operation do not cover expenses. Since 1976, however, revenues have exceeded expenses each year and hence there has been no assessment other than for specific services and personnel as provided by law. The Division of Insurance is the only agency in Massachusetts state government with no general revenue cost and a 1979 fiscal budget substantially lower than its 1975 budget.

TABLES

Table 1

MASSACHUSETTS DIVISION OF INSURANCE

Organization Chart Prepared on January 11, 1974

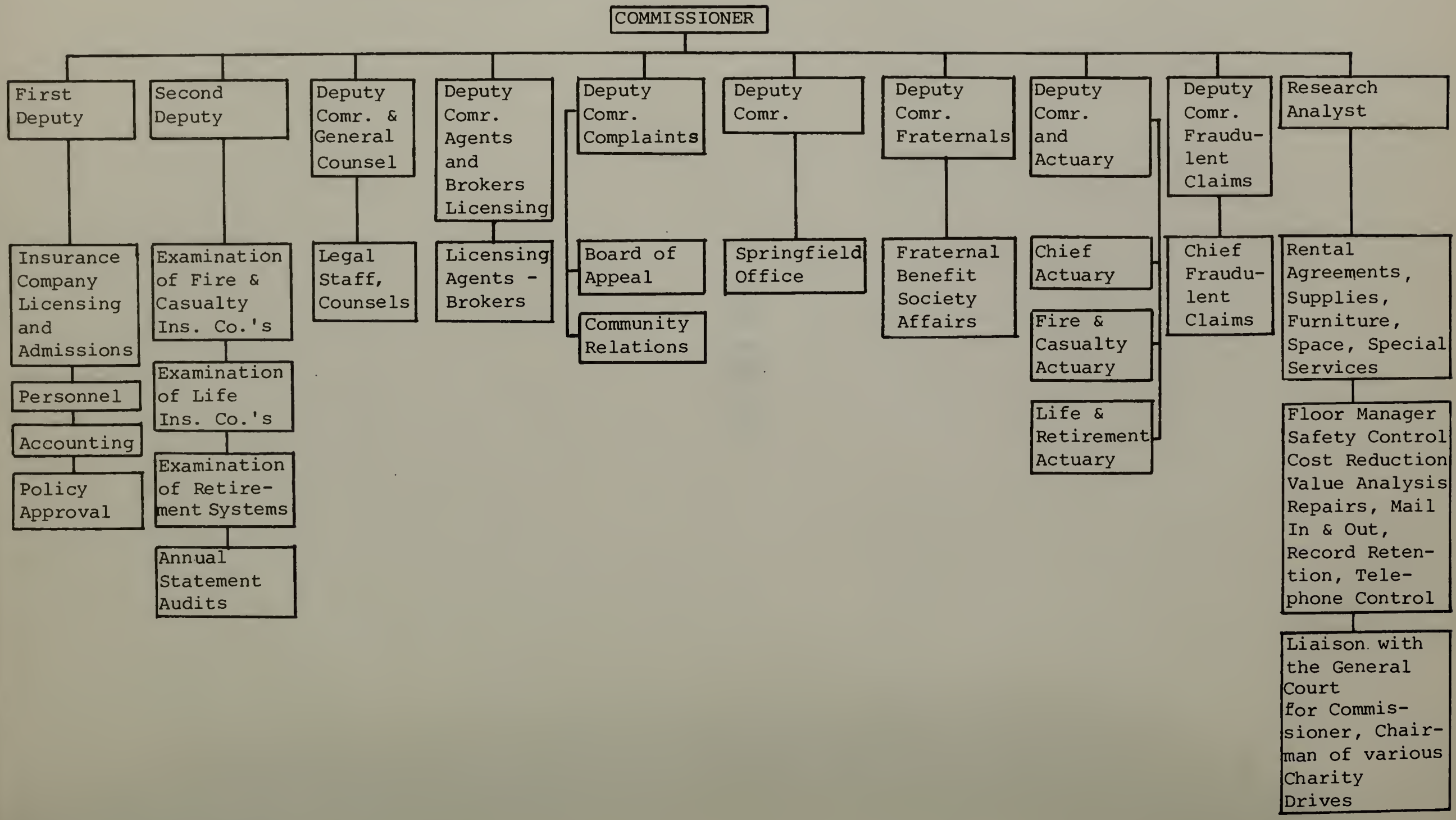


Table 2

MASSACHUSETTS DIVISION OF INSURANCE

Organization Chart as of September 30, 1978

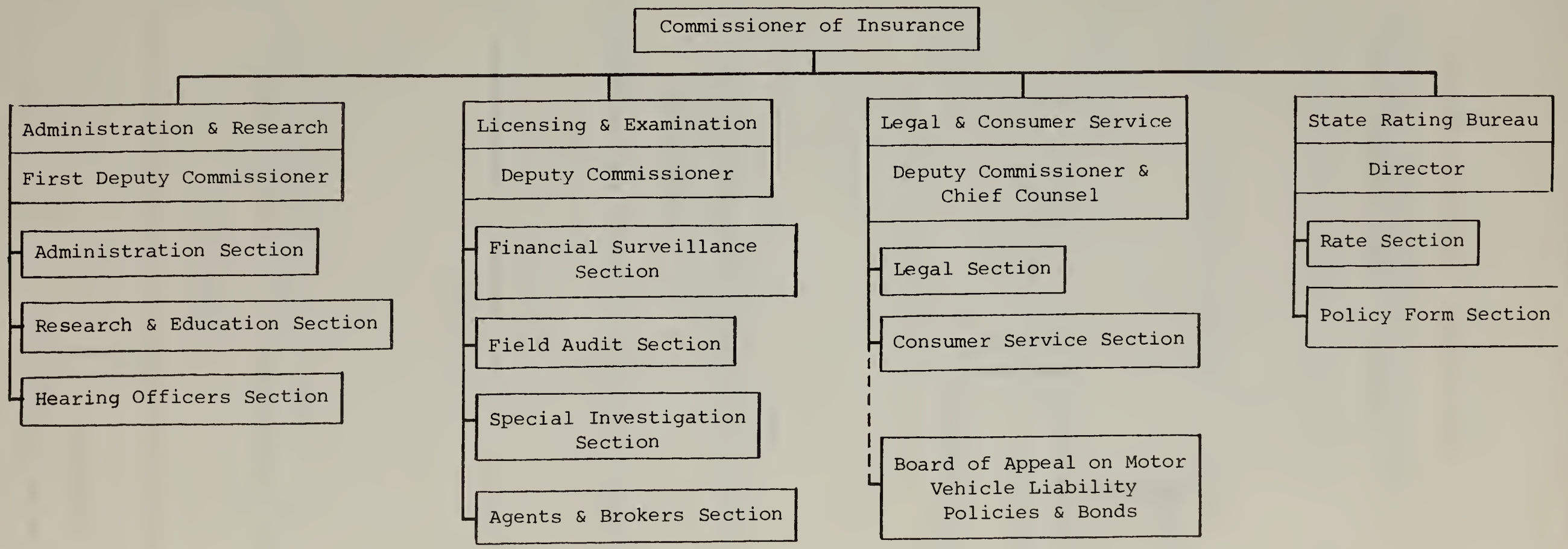
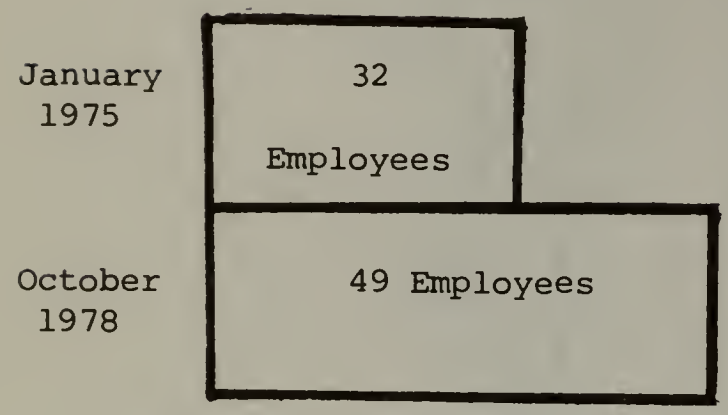


Table 3

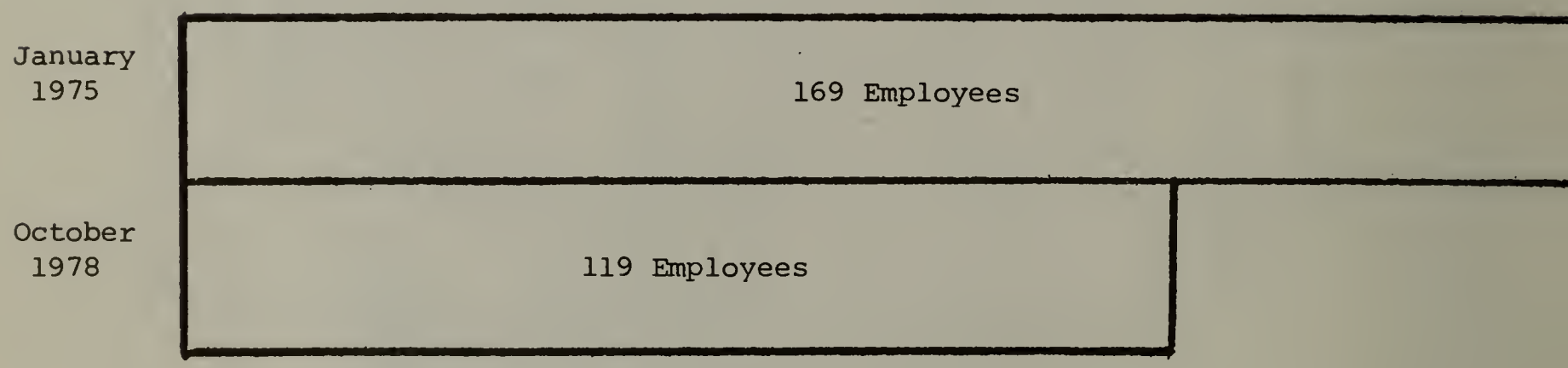
MASSACHUSETTS DIVISION OF INSURANCE

Distribution of Personnel by Payroll Grade
January, 1975 and October, 1978

Grades 20 and Above; Principally Professional



Grades 14-19; Principally Ministerial



Grades 3-13; Principally Clerical

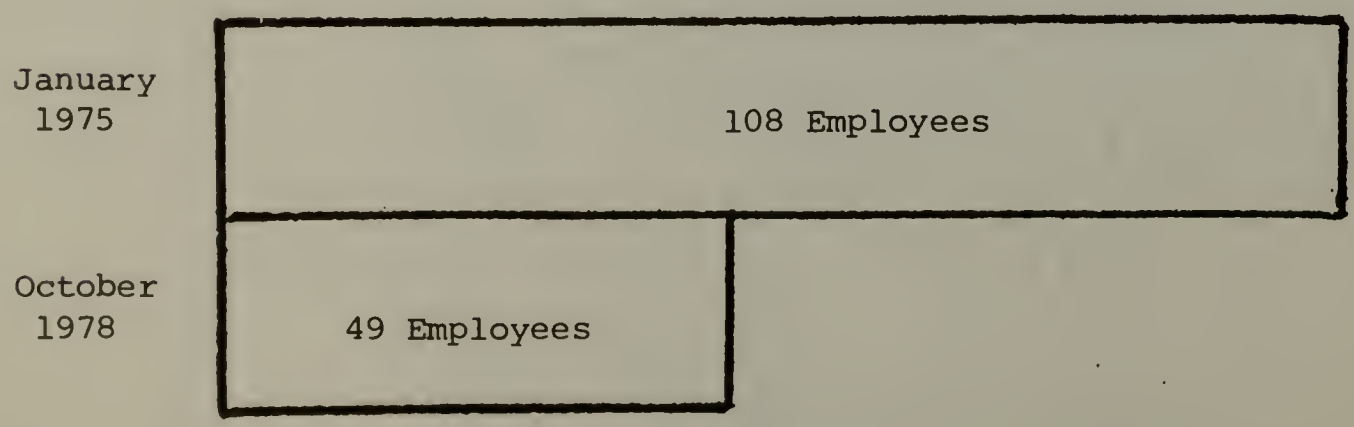


Table 4 MASSACHUSETTS DIVISION OF INSURANCE

Summary of New Professional Positions
1975 - 1978

Actuaries

6 Actuary/Statisticians
4 State Insurance Department
Fire and Casualty Actuaries

Attorneys

2 State Rating Bureau Counsels
3 Counsels III
6 Counsels II
1 Counsel I

Accountants

2 State Rating Bureau Accountants
2 Insurance Auditors III
7 Insurance Auditors II
8 Insurance Auditors I

Other

1 Economist III

Table 5 MASSACHUSETTS DIVISION OF INSURANCE

Distribution of Terminations and Appointments in the Office and in the Field by Year, 1975 - 1978

	Office		Field	
Year	Delete	Add	Delete	Add
1975	23	3	53	0
1976	29	44	12	5
1977	26	25	16	1
1978	21	15	10	5
	99	87	91	11
Net Additions		-12		-80
Transfers		+41		-41
Total		+29		-121
Grand Total			-92	

Table 6 MASSACHUSETTS DIVISION OF INSURANCE

Distribution of Personnel by Organizational Unit
January, 1975 and October, 1978

Unit	January, 1975	October, 1978
Commissioner's Staff	7	5
Administration	13	15
Research	1	6
Hearing Officers	0	4
Company Licensing and Financial Surveillance	6	28
Field Audit	118	76
Investigations, Fraudulent Claims	57	8
Agents and Brokers Licensing	37	12
Legal	8	13
Consumer Service	14	27
Policy Forms	5	8
Rate Regulation	43	15
Total	309	217

Table 7

MASSACHUSETTS DIVISION OF INSURANCE

Expenses by Subsidiary Account - Administration
1975 - 1979

	FY75	FY76	FY77	FY78	FY79 (Budget)
Personnel	3,825,037	3,052,510	3,467,080	3,586,986	3,419,500
Overtime/ Temp. emp.	4,043	284	2,500	11,952	500
Consultants	8,868	0	74,281	54,261	20,000
Travel	130,280	60,637	58,028	59,598	60,000
Printing	19,111	8,117	30,623	24,194	30,820
Repair	2,000	1,651	1,990	1,950	1,000
Training	0	10,873	3,490	6,200	3,500
Supplies	72,035	72,456	91,719	120,332	110,000
Equipment	0	0	14,994	9,074	180
Rental	13,640	11,902	15,586	27,516	26,500
Total	4,075,014	3,218,429	3,760,291	3,902,063	3,672,000